

CITY OF LARCHWOOD  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2007

## Table of Contents

	<u>Exhibit</u>	<u>Page</u>
Officials		3
Independent Auditor's Report		4 - 5
Management's Discussion and Analysis		6 - 11
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Activities and Net Assets - Cash Basis	A	14 - 15
Government Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	17
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	18
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	19
Notes to Financial Statements		20 - 24
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		26 - 27
Notes to Required Supplementary Information - Budgetary Reporting		28
Other Supplementary Information:		
	<u>Schedule</u>	
Schedule of Indebtedness	1	30 - 31
Bond and Note Maturities	2	32
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	3	33
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		34 - 35
Schedule of Findings		36 - 38

## **CITY OF LARCHWOOD**

### **OFFICIALS**

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Leonard Vanden Bosch	Mayor	January 1, 2008
Mike Metzger	Council Member	January 1, 2010
Josh Feucht	Council Member	January 1, 2009
Dean Snyders	Council Member	January 1, 2008
Ted Underberg	Council Member	January 1, 2008
Betty Smith	Council Member	January 1, 2008
La Vonne Reinke	Clerk/Treasurer	July 12, 2007
Lachlan Murphy Bonander	Attorney	January 1, 2008

**EAST, VANDER WOUDE, GRANT & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

Paul T. East, CPA  
Paul W. Vander Woude, CPA  
Rose Grant, CPA

707 West 11<sup>th</sup> Street  
Sioux Falls, SD 57104  
(605)334-9111  
(605)334-2195 FAX

**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Larchwood, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Larchwood's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Larchwood as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated September 28, 2007 on our consideration of the City of Larchwood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We

have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Larchwood's basic financial statements. Heard Halse & Co. previously audited City of Larchwood, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity an other comprehensive basis of accounting.

Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*East, Vander Woude, Grant & Co., PC*

East, Vander Woude, Grant & Co., P.C.

September 28, 2007

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

City of Larchwood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 21.0%, or approximately \$83,000, from fiscal 2006 to fiscal 2007. Transfers from the electric fund increased by approximately \$302,000.
- Disbursements increased 22.1%, or approximately \$84,000, in fiscal 2007 from fiscal 2006. Public works disbursements decreased and culture and recreation, community and economic development, and general government increased with public safety remaining about the same.
- The City's total cash basis net assets increased approximately \$82,000, from June 30 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$260,000 and the assets of the business type activities decreased by approximately \$179,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets – Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly,

the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Cash Basis reports information, which helps answer this question.

The Statement of Activities and Net Assets – Cash Basis presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets – Cash Basis is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric, garbage, water, and sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the electric, garbage, water, and sanitary sewer system funds. Electric and water funds are considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

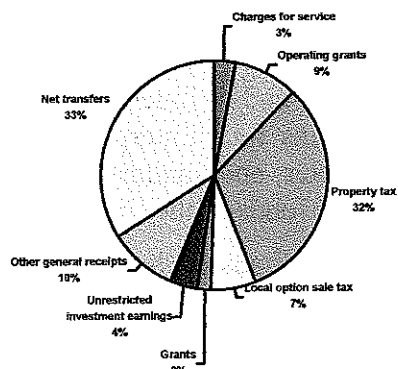
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

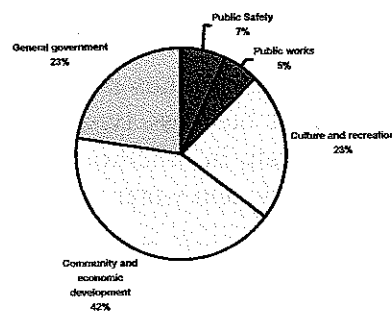
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$14,692 to \$275,157. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)			
		Year ended June 30,	
		2007	2006
Receipts and transfer:			
Program receipts:			
Charges for service	\$	22	\$ 22
Operating grants, contributions and restricted interest		66	66
General receipts:			
Property tax		232	205
Local option sales tax		48	41
Grants and contributions not restricted to specific purposes		13	11
Unrestricted investment earnings		29	17
Other general receipts		69	33
Transfers, net		247	(55)
Total receipts and transfers		726	340
Disbursements:			
Public safety		33	31
Public works		25	47
Culture and recreation		107	99
Community and economic development		196	120
General government		105	84
Total disbursements		466	381
Increase (decrease) in cash basis net assets		260	(41)
Cash basis net assets beginning of year		15	56
Cash basis net assets end of year	\$	275	\$ 15

Receipts by source



Disbursements by Function





The City's total receipts for governmental activities increased by 21.0%, or \$83,000 and the total cost of all programs and services increased by approximately \$84,000, or 22.1%, with no new programs added this year. The significant increase in receipts was primarily the result of the increase in property taxes and the sale of assets during the current year.

The City property tax rates remained the same for 2007 but an increase in property valuations increased the amount received by approximately \$27,000 in 2007. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by approximately \$5,000 next year.

The cost of all governmental activities this year was \$466,122 compared to \$381,726 last year. However, as shown in the Statement of Activities and Net Assets – Cash Basis on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$378,048 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$88,074). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, remained about the same in 2007, principally due to the same income from recreation membership fees and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)			
		Year ended June 30,	
		2007	2006
Receipts and transfer:			
Program receipts:			
Charges for service			
Electric	\$	531	\$ 486
Water		109	109
Other nonmajor		134	133
General receipts:			
Unrestricted investment earnings		9	3
Total receipts		<u>783</u>	<u>731</u>
Disbursements:			
Electric		411	355
Water		75	92
Other nonmajor		59	90
Debt Service		169	70
Transfers		247	(55)
Total disbursements		<u>961</u>	<u>552</u>
Increase (decrease) in cash basis net assets		(178)	179
Cash basis net assets beginning of year		<u>579</u>	<u>400</u>
Cash basis net assets end of year	\$	<u>401</u>	\$ <u>579</u>

Total business type activities receipts for the fiscal year were \$782,569 compared to \$731,370 last year. This increase was due primarily to increases in Electric and Water fund receipts. The cash balance decreased by approximately \$178,000 from the prior year because more funds were transferred to general government to cover cost of improvements to the infrastructure. Total disbursements and transfers for the fiscal year increased by approximately \$302,000.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As City of Larchwood completed the year, its governmental funds reported a combined fund balance of \$275,158, an increase of \$260,466 above last year's total of \$14,692. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$78,001 from the prior year to \$97,475. This increase was due to sales of property and transfers from electric utilities.
- The Road Use Tax Fund cash balance increased by \$170,647 to \$98,225 during the fiscal year. This increase was attributable to the transfer of funds from electric to defer the cost of improvements completed during the year.
- The Urban Renewal Tax Increment Fund was established to account for urban renewal projects within the City's business district. At the end of the fiscal year, the cash balance was \$1,186, a decrease of \$15,340 from the previous year due to several projects started during the year.
- The Local Option Sales Tax Fund was established to pay debts of the City. At the end of the fiscal year, the cash balance was \$78,272 an increase of \$27,158 from the previous year.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Electric Fund cash balance decreased by \$225,946 to \$286,626, due primarily to more funds being transferred to other funds to pay for improvements and operations.
- The Water Fund cash balance decreased by \$66,407 to \$66,533, due primarily to an extra payment to Lyon and Sioux Rural Water System hook up of \$100,000. This reduced the loan repayment schedule by 22 years and saved approximately \$300,000 in interest expense.
- The Sewer Fund cash balance increased by \$111,475 to \$36,314, due primarily to the reduction of expenses for the year.
- The Garbage Fund cash balance increased by \$2,095 to \$11,075, due primarily to the receipts in the current year being higher than the expenditures this year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended the budget one time. The amendment was approved May 7, 2007 and resulted in an increase in TIF revenues; other city taxes; licenses and permits; charges for services; and miscellaneous sources. The amendment also increased general government and business type expenditures.

The City's receipts were \$21,959 less than budgeted primarily due to receiving less in miscellaneous revenues than anticipated. Even with the budget amendments, community and economic development was over budget by \$181,549. However, the actual disbursements for public safety, public works, culture and recreation, general government, capital projects were \$2,807, \$94,721, \$15,432, \$104,285, \$55,000, \$14,475, respectively, less than the amended budget. The net effect was the expenditures were less than the amended budget.

## DEBT ADMINISTRATION

At June 30, 2007, the City had \$825,697 in bonds and other long-term debt, compared to \$958,221 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2007	2006
General obligation loans	\$ 330,697	\$ 434,607
Capital Revenue Notes	495,000	523,614
Total	\$ 825,697	\$ 958,221

Debt decreased \$132,910. The City made an additional payment to Lyon and Sioux Rural Water general obligation loan which reduced the number of years remaining of the loan by 22 years. This additional payment saved the City approximately \$300,000 interest that would have been paid over that length of time.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Larchwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's population growth during 2001-2007, averaging per year gains of four houses built each year bringing in about 20 new people.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2007 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2007.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$1.28 million, a decrease of 4.9% over the final 2007 budget. Budgeted disbursements are expected to go down approximately \$140,000. Decreases in public works and general government represent the largest decreases. The City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$8,000 by the close of 2008.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandi DeSmet, City Clerk, 909 Broadway, Larchwood, Iowa, 51241-0216.

**City of Larchwood, Iowa**

## **Basic Financial Statements**

City of Larchwood  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2007

Functions/Programs	Disbursements	Program Revenues		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>Governmental activities:</b>				
Public safety	\$ 33,190	\$ -	\$ -	\$ -
Public works	25,029	-	65,676	-
Culture and recreation	106,659	20,088	-	-
Community and economic development	196,549	-	-	-
General government	104,695	2,310	-	-
Total governmental activities	466,122	22,398	65,676	-
<b>Business type activities:</b>				
Electric	410,717	530,988	-	-
Water	198,012	108,569	-	-
Other nonmajor	105,359	134,445	-	-
Total business type activities	714,088	774,002	-	-
Total	1,180,210	796,400	65,676	-
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Tax incremental financing				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment earnings				
Miscellaneous				
Sale of assets				
<b>Transfers</b>				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Local Option Sales Tax				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities		Business Type Activities	Total
\$	(33,190)	\$ -	\$ (33,190)
	40,647	-	40,647
	(86,571)	-	(86,571)
	(196,549)	-	(196,549)
	(102,385)	-	(102,385)
	(378,048)	-	(378,048)
	-	120,271	120,271
	-	(89,443)	(89,443)
	-	29,086	29,086
	-	59,914	59,914
	(378,048)	59,914	(318,134)
	112,379	-	112,379
	119,768	-	119,768
	47,840	-	47,840
	13,290	-	13,290
	28,801	8,567	37,368
	4,317	-	4,317
	64,855	-	64,855
	247,264	(247,264)	-
	638,514	(238,697)	399,817
	260,466	(178,783)	81,683
	14,692	579,331	594,023
\$	275,158	\$ 400,548	\$ 675,706
\$	98,225	\$ -	\$ 98,225
	1,186	-	1,186
	78,272	-	78,272
	97,475	400,548	498,023
\$	275,158	\$ 400,548	\$ 675,706

See notes to financial statements.

City of Larchwood  
Statement of Cash Receipts, Disbursements and Changes in  
Cash Balances - Governmental Funds  
As of and for the year ended June 30, 2007

Exhibit B

	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment	Total
<b>Receipts:</b>					
Property tax	\$ 112,379	\$ -	\$ -	\$ -	\$ 112,379
Tax increment financing collections	-	-	-	119,768	119,768
Other city tax	-	-	47,840	-	47,840
Licenses and permits	2,310	-	-	-	2,310
Use of money and property	26,306	-	2,354	141	28,801
Intergovernmental	13,290	65,676	-	-	78,966
Charges for service	20,088	-	-	-	20,088
Miscellaneous	4,317	-	-	-	4,317
<b>Total Receipts</b>	<b>178,690</b>	<b>65,676</b>	<b>50,194</b>	<b>119,909</b>	<b>414,469</b>
<b>Disbursements:</b>					
Operating:					
Public safety	33,190	-	-	-	33,190
Public works	-	25,029	-	-	25,029
Culture and recreation	106,659	-	-	-	106,659
Community and economic development	-	-	-	196,549	196,549
General government	104,695	-	-	-	104,695
<b>Total Disbursements</b>	<b>244,544</b>	<b>25,029</b>	<b>-</b>	<b>196,549</b>	<b>466,122</b>
<b>Excess of receipts over disbursements</b>	<b>(65,854)</b>	<b>40,647</b>	<b>50,194</b>	<b>(76,640)</b>	<b>(51,653)</b>
<b>Other financing sources (uses):</b>					
Sale of capital assets	64,855	-	-	-	64,855
Operating transfers in (out)	79,000	130,000	(23,036)	61,300	247,264
<b>Total other financing sources (uses)</b>	<b>143,855</b>	<b>130,000</b>	<b>(23,036)</b>	<b>61,300</b>	<b>312,119</b>
<b>Net change in cash balances</b>	<b>78,001</b>	<b>170,647</b>	<b>27,158</b>	<b>(15,340)</b>	<b>260,466</b>
<b>Cash balances beginning of year</b>	<b>19,474</b>	<b>(72,422)</b>	<b>51,114</b>	<b>16,526</b>	<b>14,692</b>
<b>Cash balances end of year</b>	<b>\$ 97,475</b>	<b>\$ 98,225</b>	<b>\$ 78,272</b>	<b>\$ 1,186</b>	<b>\$ 275,158</b>
<b>Cash Basis Fund Balances</b>					
Reserved:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved:					
General fund	97,475	-	-	-	97,475
Special revenue funds	-	98,225	78,272	1,186	177,683
<b>Total cash basis fund balances</b>	<b>97,475</b>	<b>98,225</b>	<b>78,272</b>	<b>1,186</b>	<b>275,158</b>

See notes to financial statements



City of Larchwood, Iowa  
Reconciliation of the Statement of Cash Receipts, Disbursements and  
Changes in Cash Balances to the Statement of Activities and  
Net Assets - Governmental Funds  
As of and for the year ended June 30, 2007

Exhibit C

**Total governmental funds cash balances (page 16)** \$ 275,158

**Amounts reported for governmental activities in the  
Statements of Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of  
partial self funding of the City's health insurance benefit plan to individual funds.  
The assets of the Internal Service Fund are included in governmental activities in  
the Statement of Net Assets

-

**Cash basis net assets of governmental activities (page 15)** \$ 275,158

**Net change in cash balances (page 16)** \$ 260,466

**Amounts reported for governmental activities in the  
Statements of Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of  
employee health benefits to individual funds. The change of net assets of the  
Internal Service Fund is reported with governmental activities

-

**Change in cash balance of governmental activities (page 15)** \$ 260,466

See notes to financial statements.

City of Larchwood, Iowa  
Statement of Cash Receipts, Disbursements and Changes in  
Cash Balances - Proprietary Funds  
As of and for the year ended June 30, 2007

Exhibit D

	Enterprise Funds			
			Other	
	Electric	Water	Nonmajor Enterprise	Total
Operating receipts:				
Use of money and property	\$ 7,083	\$ -	\$ 1,484	\$ 8,567
Licenses and permits	-	600	1,130	1,730
Charge for service	530,988	107,969	133,315	772,272
Total operating receipts	<u>538,071</u>	<u>108,569</u>	<u>135,929</u>	<u>782,569</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	-
Public works	-	-	-	-
Health and social services	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	-	-
General government	-	-	-	-
Capital projects	-	-	-	-
Business type activities	410,717	75,020	59,176	544,913
Total operating disbursements	<u>410,717</u>	<u>75,020</u>	<u>59,176</u>	<u>544,913</u>
Excess (deficiency) of operating receipts over (under)	<u>127,354</u>	<u>33,549</u>	<u>76,753</u>	<u>237,656</u>
Non-operating receipts (disbursements):				
Intergovernmental	-	-	-	-
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
General obligation bond proceeds	-	-	-	-
Debt service	-	(122,992)	(46,183)	(169,175)
Total non-operating receipts (disbursements)	<u>-</u>	<u>(122,992)</u>	<u>(46,183)</u>	<u>(169,175)</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	127,354	(89,443)	30,570	68,481
Operating transfers out	(353,300)	23,036	83,000	(247,264)
Net change in cash balances	(225,946)	(66,407)	113,570	(178,783)
Cash balances beginning of year	512,572	132,940	(66,181)	579,331
Cash balances end of year	<u>\$ 286,626</u>	<u>\$ 66,533</u>	<u>\$ 47,389</u>	<u>\$ 400,548</u>
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	\$ -	\$ -	\$ -
Unreserved	286,626	66,533	47,389	400,548
Total cash basis fund balances	<u>\$ 286,626</u>	<u>\$ 66,533</u>	<u>\$ 47,389</u>	<u>\$ 400,548</u>
	-	-	-	-

See notes to financial statements  
City of Larchwood, Iowa  
Reconciliation of the Statement of Cash Receipts, Disbursements and  
Changes in Cash Balances to the Statement of Activities and  
Net Assets - Proprietary Funds  
Year ended June 30, 2007

Exhibit E

**Total enterprise funds cash balances (page 18)** \$ 400,548

**Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of  
partial self funding of the City's health insurance benefit plan to individual funds.  
The assets of the Internal Service Fund are included in business type activities in  
the Statement of Net Assets.

-

**Cash basis net assets of business type activities (page 15)** \$ 400,548

**Net change in cash balances (page 21)** \$ (178,783)

**Amounts reported for business type activities in the  
Statements of Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of partial  
self funding of the City's health insurance benefit to individual funds. The change  
of net assets of the Internal Service Fund is reported with business type  
activities.

-

**Change in cash balance of business type activities (page 15)** \$ (178,783)

See notes to financial statements.  
City of Larchwood  
Larchwood, Iowa  
Notes to Financial Statements  
June 30, 2007

**(1) Summary of Significant Accounting Policies**

The City of Larchwood is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

**A. Reporting Entity**

For financial reporting purposes, City of Larchwood has included all funds. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The City of Larchwood had no component units that were included in the period covered by this audit.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Activities and Net Assets – Cash Basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely, to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets – Cash Basis presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets – Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the sales tax receipts to be used for payments of the long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Electric Fund accounts for the operation and maintenance of the City's electricity and generator substation system.

The City also reports the following additional proprietary funds:

A Sewer and Garbage Funds are utilized to account for the sewer and garbage services provided by the City.

#### C. Measurement Focus and Basis of Accounting

The City of Larchwood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

**(2) Cash and Pooled Investments**

The City's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City's investments consist of savings accounts and certificates of deposits all held within the State of Iowa which are unrated.

**(3) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$6,252, \$5,603 and \$4,878, respectively, equal to the required contributions for each year.

**(4) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation leave termination

payments payable to employees at June 30, 2007, is \$5,862. The City's approximate liability for sick leave termination payments payable to employees at June 30, 2007, is \$1,805. These liabilities have been computed based on rates of pay as of June 30, 2007.

**(5) Related Party Transactions**

The City had business transactions between the City and City officials or spouses totaling \$81,884 during the year ended June 30, 2007.

**(6) Notes Payable**

On June 20, 2006, the City obtained a 20-year loan note to cover construction costs of a sewer lagoon system. Sewer Revenue Capital Loan Note Series 2006 was entered into with Iowa Finance Authority with an interest rate of 3% and requirements of semi-annual interest payments and annual principal payments.

The City has also entered into an agreement with Lyon and Sioux Rural Water System, Inc. to provide potable treated water to the City, not to exceed 200,000 gallons per day. In this agreement the City transferred the city well and other considerations to the System. The City will be paying a connection fee totaling \$441,869. Payments started October 1, 2006 with monthly payments of \$1,916 including interest at 4.25% initially scheduled for payments extending 40 years. On June 12, 2007 the City choose to make an additional payment of \$100,000 and to start making the monthly payment of \$2,500, thus making the final loan payment due in 2022. The extra loan payment and increased the monthly payment will save the City approximately \$300,000 in interest payments over the life of the loan.

The following is the payment schedule for both debts:

Year Ending June 30,	Connection Fee		Capital Loan Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 16,837	\$ 13,163	\$ 26,000	\$ 14,849	\$ 42,837	\$ 28,012
2009	16,989	13,011	27,000	14,070	43,989	27,081
2010	17,726	12,274	28,000	13,260	45,726	25,534
2011	18,494	11,506	29,000	12,420	47,494	23,926
2012	19,295	10,705	30,000	11,550	49,295	22,255
2013 - 2017	109,768	40,232	165,000	43,650	274,768	83,882
2018 - 2022	131,588	14,296	190,000	17,440	321,588	31,736
Totals	\$ 330,697	\$ 115,187	\$ 495,000	\$ 127,239	\$ 825,697	\$ 242,426

The resolutions providing for the issuance of the revenue capital loan notes include the following provisions:

- The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- Sufficient monthly transfers shall be made to separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

**(7) Risk Management**

The City of Larchwood is exposed to various risks of loss related to torts; theft, damage to and destruction of assets, errors and omissions; injuries to employee; and natural disasters. These risks are covered by purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Interfund Transfers**

The detail of interfunds transfers for the year ended June 30, 2007 is as follows:

Transfer to:	Transfer from:	Amount
General	Electric	\$ 79,000
Road Use	Electric	130,000
IIF	Electric	61,300
Sewer	Electric	83,000
Water	Local Option	23,036
	Total	<u>\$ 376,336</u>

**(9) Subsequent Events**

A new City Clerk, Sandi DeSmet was hired and started in June to replace the retiring City Clerk LaVonne Reinke, who retired on July 12, 2007.



## **Required Supplementary Information**

City of Larchwood, Iowa  
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 112,379	\$ -
Tax increment financing collections	119,768	-
Other city tax	47,840	-
Licenses and permits	2,310	1,730
Use of money and property	28,801	8,567
Intergovernmental	78,966	-
Charges for service	20,088	772,272
Special assessments	-	-
Miscellaneous	4,317	-
Total receipts	<u>414,469</u>	<u>782,569</u>
Disbursements:		
Public safety	33,190	-
Public works	25,029	-
Health and social services	-	-
Culture and recreation	106,659	-
Community and economic development	196,549	-
General government	104,695	-
Debt service	-	169,175
Capital projects	-	-
Business type activities	-	544,913
Total disbursements	<u>466,122</u>	<u>714,088</u>
Excess of receipts over disbursements	(51,653)	68,481
Other financing sources, net	<u>312,119</u>	<u>(247,264)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	260,466	(178,783)
Balances beginning of year	<u>14,692</u>	<u>579,331</u>
Balances end of year	<u>\$ 275,158</u>	<u>\$ 400,548</u>

See accompanying independent auditor's report

Less Funds not Required to be Budgeted		Total Actual	Budgeted Amounts		Final to Actual Variance
			Original	Final	
\$	-	\$ 112,379	\$ 110,569	\$ 110,569	\$ 1,810
	-	119,768	90,000	120,000	(232)
	-	47,840	42,000	45,000	2,840
	-	4,040	1,945	2,335	1,705
	-	37,368	9,830	14,830	22,538
	-	78,966	65,400	65,400	13,566
	-	792,360	765,363	790,363	1,997
	-	-	-	-	-
	-	4,317	42,500	70,500	(66,183)
	-	1,197,038	1,127,607	1,218,997	(21,959)
	-	33,190	35,997	35,997	(2,807)
	-	25,029	119,750	119,750	(94,721)
	-	-	-	-	-
	-	106,659	122,091	122,091	(15,432)
	-	196,549	15,000	15,000	181,549
	-	104,695	123,980	208,980	(104,285)
	-	169,175	-	-	169,175
	-	-	55,000	55,000	(55,000)
	-	544,913	628,563	728,563	(183,650)
	-	1,180,210	1,100,381	1,285,381	(105,171)
	-	16,828	27,226	(66,384)	83,212
	-	64,855	-	-	64,855
	-	81,683	27,226	(66,384)	148,067
	-	594,023	424,393	594,024	(1)
\$	-	\$ 675,706	\$ 451,619	\$ 527,640	\$ 148,066

See accompanying independent auditor's report.

City of Larchwood, Iowa  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted revenues by \$91,390 and disbursements by \$185,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

## **Other Supplementary Information**

City of Larchwood, Iowa  
Schedule of Indebtedness  
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year
General obligation debt:				
Lyon & Sioux Rural Water System Inc.	09/01/04	4.25%	441,869	\$ 434,607
Capital Revenue Loan Notes:				
Sewer Capital Loan	06/28/02	3%	633,614	\$ 523,614

See accompanying independent auditor's report.

## Schedule 1

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ -	\$ 103,910	\$ 330,697	\$ 19,083	\$ 586
\$ 386	\$ 29,000	\$ 495,000	\$ 17,183	\$ 1,196

See accompanying independent auditor's report.

Bond and Note Maturities  
June 30, 2007

Schedule 2

<b>Capital Loan Notes</b>			<b>General Obligation Debt</b>		
<b>Sewer Project</b>			<b>Lyon &amp; Sioux Rural Water</b>		
<b>Issued June 28, 2002</b>			<b>Issued September 1, 2004</b>		
<b>Year Ending June 30</b>	<b>Interest Rates</b>	<b>Amounts</b>	<b>Year Ending June 30</b>	<b>Interest Rates</b>	<b>Amounts</b>
2008	3.00%	26,000	2008	4.25%	16,837
2009	3.00%	27,000	2009	4.25%	16,989
2010	3.00%	28,000	2010	4.25%	17,726
2011	3.00%	29,000	2011	4.25%	18,494
2012	3.00%	30,000	2012	4.25%	19,295
2013	3.00%	31,000	2013	4.25%	20,131
2014	3.00%	32,000	2014	4.25%	21,004
2015	3.00%	33,000	2015	4.25%	21,914
2016	3.00%	34,000	2016	4.25%	22,864
2017	3.00%	35,000	2017	4.25%	23,855
2018	3.00%	36,000	2018	4.25%	24,889
2019	3.00%	37,000	2019	4.25%	25,967
2020	3.00%	38,000	2020	4.25%	27,092
2021	3.00%	39,000	2021	4.25%	28,267
2022	3.00%	40,000	2022	4.25%	25,373
<b>TOTAL</b>		<b>\$ 495,000</b>	<b>TOTAL</b>		<b>\$ 330,697</b>

See accompanying independent auditor's report.



City of Larchwood, Iowa  
Schedule of Revenues by Source and Expenditures by Function -  
All Governmental Funds  
For the Last Four Years

Schedule 3

	2007	2006	2005	2004
Receipts:				
Property tax	\$ 112,379	\$ 103,670	\$ 100,279	\$ 99,407
Tax increment financing collections	119,768	101,755	97,735	70,327
Other city tax	47,840	40,605	40,189	37,911
Licenses and permits	2,310	1,945	1,945	1,945
Use of money and property	28,801	17,571	14,039	6,309
Intergovernmental	78,966	77,555	106,569	79,121
Charges for service	20,088	20,092	12,046	11,093
Special assessments	-	-	-	-
Miscellaneous	4,317	7,728	3,282	12,674
Total	<u>414,469</u>	<u>370,921</u>	<u>376,084</u>	<u>318,787</u>
Disbursements:				
Operating:				
Public safety	33,190	31,164	31,164	35,023
Public works	25,029	47,332	182,225	80,830
Health and social services	-	-	-	-
Culture and recreation	106,659	98,831	128,950	86,577
Community and economic development	196,549	120,291	55,294	-
General government	104,695	83,958	62,168	64,093
Debt service	-	-	21,518	-
Capital projects	-	-	-	111,124
Total	<u>\$ 466,122</u>	<u>\$ 381,576</u>	<u>\$ 481,319</u>	<u>\$ 377,647</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control**  
**over Financial Reporting and on Compliance and Other Matters**  
**Based on an Audit of Financial Statements Performed in Accordance**  
**with Government Auditing Standards**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Larchwood, Iowa as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 28, 2007. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Larchwood's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Larchwood's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Larchwood's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Larchwood's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Larchwood's financial statements that is more than inconsequential will not be prevented or detected by City of Larchwood's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial

reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Larchwood's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-07 and I-B-07 are a material weakness.

#### Compliance and Other Matters

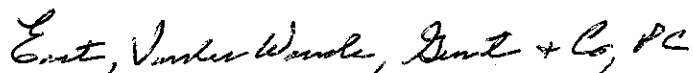
As part of obtaining reasonable assurance about whether the City of Larchwood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance that are required to be reported under Government Auditing Standards and which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit is based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Larchwood's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Larchwood's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of City of Larchwood and other parties to whom the City of Larchwood may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Larchwood during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
East, Vander Woude, Grant & Co., P.C.

September 28, 2007

City of Larchwood, Iowa  
Schedule of Findings  
Year ended June 30, 2007

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCY:**

I-A-07     Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The same employee performs all duties.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-07     Staff expertise and inadequate accounting software – The staff responsible for the accounting and reporting function lack the skills and knowledge to apply generally accepted accounting principles (GAAP) in recording transactions or preparing the financial statements. This is not unusual in an organization of your size. In addition, the accounting software does not appear to have the ability to adequately distinguish between funds providing individual fund cash or unspent fund balances. This requires additional work for the staff and allows for more errors to occur.

Recommendation - We recommend that the staff responsible for the accounting and reporting function develop better skills and acquire more knowledge. A compensating control would be to hire another CPA firm to prepare an adjusted trial balance and prepare the financial statements. We also recommend looking into new accounting software that provides adequate fund accounting records.

Response - We will consider this.

Conclusion - Response acknowledged.

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-07     Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the fiscal year ended June 30, 2007.

II-B-07     Questionable Disbursements - No disbursements of City money for questionable disbursements were noted.

II-C-07     Travel and Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Larchwood, Iowa  
Schedule of Findings  
Year ended June 30, 2007

**Part II: Other Findings Related to Required Statutory Reporting con't.:**

- II-D-07 Business Transaction – Business transactions between the City and City officials or employees during the year ending June 30, 2007 are as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Leonard Vanden Bosch, Mayor, Owner of D & L Masonry	Waking Path work, per bid	\$ 7,131
Josh Feucht, Council Member, Partner in 5J's LLC	TIF Resolution 2007-3	\$68,925
Mike Metzger, Council Member, Owner of Metzger Construction	Repairs of City Gym, per bid	\$5,828

The transactions with the Mayor and the Council Member do not appear to represent a conflict of interest since they were entered into through competitive bidding. The TIF transaction went through public hearings and resolution passed with Feucht abstaining from voting.

- II-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.
- II-G-07 Deposits and Investments - We noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-H-07 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- II-I-07 Payment of Debt – Certain debt was paid from the Enterprise Fund, Sewer Fund. The loan agreement requires “the establishment of a sufficient sinking fund to meet the principal of and interest on this series of notes.” The sinking fund has not been established.
- Recommendation – The City should establish the sinking fund for the payment of Sewer Revenue Capital Loan Notes to comply with the agreement.
- Response - We will transfer in the future as recommended.
- Conclusion - Response accepted.

City of Larchwood, Iowa  
Schedule of Findings  
Year ended June 30, 2007

**Part II: Other Findings Related to Required Statutory Reporting con't:**

II-J-07     Financial Condition – All funds of the City of Larchwood have a positive fund balance as of June 30, 2007.

II-K-07     Economic Development – The City paid \$7,880 to the Lyon County Economic Development Committee which may not be an appropriate expenditure of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General's opinion dated September 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require the Development Committee to provide documentation of how the funds were used to accomplish economic development activities.

Response - We will do this.

Conclusion - Response accepted.

II-L-07     Undocumented Cost – Supporting documentation was not available to substantiate \$1,725.60 of contract labor and mileage.

Recommendation – The City should implement procedures to ensure supporting documentation is retained. In addition, the City should review contract labor and mileage agreements to ensure the accuracy of the payment.

Response - We will establish written agreements for contract labor with mileage reimbursements and review the payments to verify the accuracy of the payment.

Conclusion - Response accepted.

II-M-07     Gross salaries not published annually – Chapter 372.13 of the Code of Iowa requires that actual gross salaries for all employees be published annually.

Recommendation – The City should annually publish gross salaries per Chapter 372.13 of the Code of Iowa.

Response - We will do this.

Conclusion - Response accepted.

II-M-07     Bank statements do not include back of check or deposit slips – Chapter 554d.114(5) of the Code of Iowa requires that if actual check and deposit slips are not returned with the statement that the electronic form must also include the backs of the instruments.

Recommendation – The City should require the bank to provide required information in either a paper copy or in electronic form on a CD for the City to maintain at their office.

Response - We will do this.

Conclusion - Response accepted.